



# **Legislative Audit Division**

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**State of Montana**

**Report to the Legislature**

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**October 2006**

## **Financial-Compliance Audit For the Two Fiscal Years Ended June 30, 2006**

### **Department of Environmental Quality**

**This report contains two recommendations related to:**

- ▶ **The reasonableness of the fund balance in the Internal Service Fund.**
- ▶ **Compliance with federal regulations related to debarred and suspended parties.**

**Direct comments/inquiries to:  
Legislative Audit Division  
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**06-16**

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## **FINANCIAL-COMPLIANCE AUDITS**

Financial-compliance audits are conducted by the Legislative Audit Division to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States Government Accountability Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

Government Auditing Standards, the Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2007, will be issued by March 31, 2008. The Single Audit Report for the two fiscal years ended June 30, 2005, was issued on March 6, 2006. Copies of the Single Audit Report can be obtained by contacting:

Single Audit Coordinator  
Office of Budget and Program Planning  
State Capitol  
Helena MT 59620  
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Room 160, State Capitol  
PO Box 201705  
Helena MT 59620-1705

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# LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor  
Tori Hunthausen,  
Chief Deputy Legislative Auditor



Deputy Legislative Auditors:  
James Gillett  
Jim Pellegrini

October 2006

The Legislative Audit Committee  
of the Montana State Legislature:

This is our financial-compliance audit report on the Department of Environmental Quality for the two fiscal years ended June 30, 2006. Our report contains two recommendations concerning the reasonableness of the fund balance in the Internal Service Fund and compliance with federal regulations related to debarred and suspended parties.

We thank the department director and staff for their assistance and cooperation during the audit.

Respectfully submitted,

*/s/ Scott A. Seacat*

Scott A. Seacat  
Legislative Auditor

# **Legislative Audit Division**

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## **Financial-Compliance Audit**

**For the Two Fiscal Years Ended June 30, 2006**

## **Department of Environmental Quality**

Members of the audit staff involved in this audit were John Fine,  
Geri Hoffman, Jim Manning, Sonia Powell, and Jeff Tamblyn.

## Table of Contents

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Appointed and Administrative Officials .....	ii
Report Summary .....	S-1
<b>Introduction.....</b>	<b>1</b>
Introduction.....	1
Background.....	1
Prior Audit Recommendations.....	3
<b>Findings and Recommendations.....</b>	<b>5</b>
Reasonableness of the Fund Balance in the Internal Service Fund .....	5
Compliance with Federal Regulation .....	6
<b>Independent Auditor's Report &amp; Department Financial Schedules.....</b>	<b>A-1</b>
Independent Auditor's Report .....	A-3
Schedule of Changes in Fund Balances For the Fiscal Year Ended June 30, 2006 .....	A-5
Schedule of Changes in Fund Balances For the Fiscal Year Ended June 30, 2005 .....	A-6
Schedule of Total Revenues & Transfers-In For the Fiscal Year Ended June 30, 2006 .....	A-7
Schedule of Total Revenues & Transfers-In For the Fiscal Year Ended June 30, 2005 .....	A-8
Schedule of Total Expenditures & Transfers-Out For the Fiscal Year Ended June 30, 2006 .....	A-9
Schedule of Total Expenditures & Transfers-Out For the Fiscal Year Ended June 30, 2005 .....	A-10
Notes to the Financial Schedules .....	A-11
<b>Department Response.....</b>	<b>B-1</b>
Department of Environmental Quality .....	B-3

## **Appointed and Administrative Officials**

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### **Department of Environmental Quality**

Richard Opper, Director

Tom Livers, Deputy Director

Dean Rude, Chief Financial Officer

John Arrigo, Enforcement Division Administrator

Steve Welch, Permitting and Compliance Division Administrator

Art Compton, Planning, Prevention and Assistance Division  
Administrator

Sandi Olsen, Remediation Division Administrator

### **Board of Environmental Review**

		<u>Term Expires</u>
Joe Russell, Chairperson	Kalispell	January 1, 2007
Heidi Kaiser	Park City	January 1, 2007
Kim Lacey	Glasgow	January 1, 2007
Don Marble	Chester	January 1, 2009
Bill Rossbach	Missoula	January 1, 2009
Robin Shropshire	Helena	January 1, 2009
Gayle Skunkcap	Browning	January 1, 2009

### **Petroleum Tank Release Compensation Board**

Greg Cross, Chairperson	Billings	June 30, 2007
Thomas Bateridge	Missoula	June 30, 2006
Frank Boucher	Helena	June 30, 2008
Theresa Blazicevich	Stevensville	June 30, 2008
Roger A. Noble	Kalispell	June 30, 2007
Shaun Peterson	Helena	June 30, 2007
Frank Schumacher	Black Eagle	June 30, 2006

For additional information concerning the  
Department of Environmental Quality, contact:

Lisa Peterson, Public Affairs Coordinator  
Department of Environmental Quality  
PO Box 200901  
Helena MT 59620-0901

e-mail: [lpeterson@mt.gov](mailto:lpeterson@mt.gov)

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**Department of  
Environmental Quality**

We performed a financial-compliance audit of the Department of Environmental Quality (department) for the two fiscal years ended June 30, 2006. This report contains two recommendations where the department could improve compliance with the federal regulations related to debarred and suspended parties and state law related to Internal Service Funds.

We issued an unqualified opinion on the financial schedules contained in this report. The reader may rely on the financial information presented in the financial schedules and the supporting data on the state's accounting system.

The listing below serves as a means of summarizing the recommendations contained in the report, the department's response thereto, and a reference to the supporting comments.

Recommendation #1

We recommend:

- A. The department record the workers' compensation discounts in accordance with state accounting policy.
- B. The department move \$130,560 of workers' compensation discount in the Internal Service Fund to the General Fund, State and Federal Special Revenue Funds. .... 6

Department Response: Concur. See page B-4.

Recommendation #2

We recommend the department's State Revolving Fund Loan programs implement procedures to ensure it complies with federal requirements prohibiting contracting with suspended or debarred entities. .... 7

Department Response: Concur. See page B-4.

# Introduction

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## Introduction

We performed a financial-compliance audit of the Department of Environmental Quality (department) for the two fiscal years ended June 30, 2006. The objectives of the audit were to:

1. Determine department compliance with applicable state and federal laws and regulations.
2. Obtain an understanding of the department's control systems and, if appropriate, make recommendations for improvement in the internal and management controls of the department.
3. Determine whether the department's financial schedules fairly present the results of operations for the two fiscal years ended June 30, 2006.
4. Determine the implementation status of prior audit recommendations.

This report contains two recommendations to the department. In accordance with section 5-13-307, MCA, we analyzed and disclosed, if significant, the costs of implementing the recommendations made in this report. Other areas of concern deemed not to have a significant effect on the successful operations of the department are not specifically included in the report, but have been discussed with management.

As required by section 17-8-101(6), MCA, we audited and are reporting on the reasonableness of Internal Service Fund type fees and fund equity balances at the department. The statute requires fees and charges for services, which are deposited into Internal Service Funds, be based upon commensurate costs. The department has one Internal Service Fund, which funds the Central Management Program and is administered by the Office of Financial Services. We reviewed the Internal Service Fund activity and determined the rates are commensurate with costs. However, the fund equity balance as reported on the state's accounting records is not reasonable. This issue is discussed on page 5.

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## Background

The 1995 Legislature created the department as part of a reorganization of the environmental and natural resources functions of state government. The department is organized along the



## Introduction

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functional lines of planning, permitting, enforcement, and remediation. Total full-time equivalent employees (FTE) for the department were 448.09 as of June 2006.

The Planning, Prevention and Assistance Program (97.76 FTE) develops air, water, waste management, and energy plans to protect Montana's resources. The program monitors environmental conditions, maintains data on the condition of Montana's environment, and encourages businesses and government units to adopt environmental practices.

The Permitting and Compliance Program (188.83 FTE) administers the permitting and compliance activities related to various federal and state statutes, including air quality, water quality, solid waste, hazardous waste, junk vehicle, mining, mine reclamation, public water supply, and sanitation in subdivision laws. The program reviews and assesses all environmental permit applications, prepares appropriate environmental impact documents, and inspects facilities to determine compliance with permit terms and the underlying laws and regulations. The division is also responsible for financial assurance activities relative to some of the permitting programs.

The Enforcement Program (14 FTE) implements, coordinates, and tracks the department's enforcement activities. The department has authority to enforce standards affecting emissions for air quality, handling and disposal of hazardous wastes, asbestos removal and disposal, coal mining, gravel pits, hard rock mining, construction of large powerlines, pipelines, electrical generation facilities, discharges of pollutants to surface or ground water, disposal of solid wastes, disposal of junk vehicles, subdivision development, community wastewater disposal, and public drinking water supplies.

The Remediation Program (65.75 FTE) is responsible for overseeing investigation and cleanup activities at state and federal Superfund sites; reclaiming abandoned mine lands; regulating, permitting, and licensing underground storage tanks; implementing corrective actions at sites with leaking underground storage tanks; overseeing

groundwater remediation at sites where agricultural and industrial chemical spills have caused groundwater contamination.

The Central Management Program (75.75 FTE) consists of the director's office, a financial services office, and an information technology office. The director's office includes the director's staff, the deputy director, an administrative officer, a public information officer, a centralized legal services unit, and a centralized personnel office. The financial services office provides budgeting, accounting, payroll, internal auditing, procurement and contract management support to other divisions. The information technology office provides information technology services support to other divisions.

The Petroleum Tank Release Compensation Board (6 FTE). The board oversees the Petroleum Tank Release Cleanup Fund, which reimburses eligible owners for the costs of petroleum release cleanup.

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### Prior Audit Recommendations

The prior financial-compliance audit of the Department of Environmental Quality for the two fiscal years ended June 30, 2004, contained nine recommendations. The department implemented eight recommendations and partially implemented one recommendation. The status of the partially implemented recommendation is summarized below.

In the last audit report, we recommended the department develop outcome measures for the Alternative Energy System Loan Program as required by section 75-25-103, MCA. The department has developed outcome measures. However, the law also requires the department to use the outcome measures to determine the success of the program annually. The department compiled data and issued a report for fiscal year 2003-04. They did not compile data to determine the success of the program for fiscal year 2004-05 until August 2006. Since the department has now completed the requirements as outlined in state law we make no further recommendation at this time.



# Findings and Recommendations

## Reasonableness of the Fund Balance in the Internal Service Fund

**The department's workers' compensation discounts were not recorded in accordance with state accounting policy.**

The department recorded its entire workers' compensation volume discount received from the Montana State Fund in the Internal Service Fund instead of the various funds that originally paid the workers' compensation premium. State accounting policy defines the workers' compensation discounts as an overpayment that should be recorded as a reduction of the original expenditure on the state's accounting system.

In fiscal year 2004-05, the department recorded the workers' compensation discount of \$44,166 as a reduction of the insurance and bonds expenditure in the Internal Service Fund. In fiscal year 2005-06, the department recorded the worker's compensation discount of \$107,857 as contributions and premiums revenue in the Internal Service Fund. The Internal Service Fund balance is cumulatively overstated by \$130,560 at June 30, 2006. The table below summarizes the misstatements in various funds.

<b>Table 1</b> <b><u>Summary of Misstatement</u></b>				
Fund	Account	FY 2004-05 misstatement over (under)	FY 2005-06 misstatement over (under)	Effect on fund balances at June 30, 2006
Internal Service Fund	expenditures	\$ (37,890)	\$ 15,186	
	revenue		107,857	
	fund balance	37,890	92,671	\$ 130,561
General Fund	expenditures	3,612	10,821	
	fund balance	(3,612)	(10,821)	(14,433)
State Special Revenue Fund	expenditures	17,726	43,711	
	fund balance	(17,726)	(43,711)	(61,437)
Federal Special Revenue Fund	expenditures	16,552	38,139	
	fund balance	(16,552)	(38,139)	(54,691)
<b>Source: Compiled by the Legislative Audit Division from information recorded on the state's accounting records.</b>				

## Findings and Recommendations

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Section 17-8-101(6), MCA, requires the Legislative Auditor to audit and report on the reasonableness of the Internal Service Fund fees and charges, and on the fund equity balance. Because of the errors discussed above, the fund balance in the department's Internal Service Fund recorded on the state's accounting records at June 30, 2005 and 2006, is not reasonable. We completed an analysis of the department's working capital taking into account the misstatements identified in the table above and found it approximates the 60-day standard set by the legislature. Therefore, the Internal Service Fund fees and charges are reasonable for fiscal years 2004-05 and 2005-06.

Federal regulations establish principles for determining allowable costs charged to federal programs. To be an allowable cost of a federal program the cost must be net of applicable credits, which are reductions of expenditure transactions charged to the federal program. Applicable credits include insurance refunds or rebates. Since the insurance refunds were not recorded as a reduction of the federal expenditures, we question costs charged to the department's federal programs of \$16,552 and \$38,139 in fiscal years 2004-05 and 2005-06, respectively.

### **Recommendation #1**

#### **We recommend:**

- A. The department record the workers' compensation discounts in accordance with state accounting policy.**
- B. The department move \$130,560 of workers' compensation discount in the Internal Service Fund to the General Fund, State and Federal Special Revenue Funds.**

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### **Compliance with Federal Regulation**

**The department's State Revolving Fund Loan Programs do not have procedures in place to prevent contracting with suspended or debarred parties.**

The department has two State Revolving Fund (SFR) Loan Programs – one for water pollution control projects (wastewater and nonpoint source projects) and the other for drinking water projects. Both programs provide at or below market interest rate loans to

## Findings and Recommendations

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eligible Montana entities, including local governments, municipalities, and water and sewer districts. These programs are funded with capitalization grants from the U.S. Environmental Protection Agency (EPA) and are matched with state-issued general obligation bonds. Loans are made and borrower repayments revolve to provide loans for future infrastructure projects.

Federal regulations prohibit the department from contracting with parties that are suspended or debarred from participating in federal programs. We found the department does not determine if the SRF grant recipients are suspended or debarred prior to subgranting drinking water and clean water capitalization state revolving grant funds. The SRF program distributed \$5.7 million and \$15.6 million during fiscal years 2004-05 and 2005-06, respectively.

Department management said they primarily grant funds to local governments, municipalities, and water and sewer districts and were not aware the federal requirement applied to those grant recipients. We found no instances of debarred or suspended grant recipients during our review of project files. However, the potential exists for the department to contract with a debarred or suspended party if they do not have procedures in place, and we are required to report such issues to the EPA. The department should implement procedures to ensure SRF loan grant recipients are not suspended or debarred from participating in federal programs prior to subgranting federal funds.

### **Recommendation #2**

**We recommend the department's State Revolving Fund Loan programs implement procedures to ensure it complies with federal requirements prohibiting contracting with suspended or debarred entities.**

# **Independent Auditor's Report & Department Financial Schedules**

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# LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor  
Tori Hunthausen,  
Chief Deputy Legislative Auditor



Deputy Legislative Auditors:  
James Gillett  
Jim Pellegrini

## INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee  
of the Montana State Legislature:

We have audited the accompanying Schedules of Changes in Fund Balances, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Department of Environmental Quality for each of the fiscal years ended June 30, 2006 and 2005. The information contained in these financial schedules is the responsibility of the department's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, the financial schedules are presented on a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The schedules are not intended to be a complete presentation and disclosure of the department's assets, liabilities and cash flows.

In our opinion, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances of the Department of Environmental Quality for each of the fiscal years ended June 30, 2006 and 2005, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

*/s/ James Gillett*

James Gillett, CPA  
Deputy Legislative Auditor

August 18, 2006



DEPARTMENT OF ENVIRONMENTAL QUALITY  
SCHEDULE OF CHANGES IN FUND BALANCES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Internal Service Fund	Private Purpose Trust Fund	Permanent Fund
FUND BALANCE: July 1, 2005	\$ <u>(836,192)</u>	\$ <u>160,873,917</u>	\$ <u>(4,739,423)</u>	\$ <u>219,187</u>	\$ <u>798,941</u>	\$ <u>4,153,281</u>	\$ <u>0</u>
ADDITIONS							
Budgeted Revenues & Transfers-In	25,265	20,120,673	19,407,299		4,534,200		
Nonbudgeted Revenues & Transfers-In	370,202	4,152,637	15,744,529	1,039,902	2,940	1,256,298	1,221,573
Prior Year Revenues & Transfers-In Adjustments		694,723	39,637		15,669	96,755	
Direct Entries to Fund Balance	<u>3,218,846</u>	<u>11,695,689</u>	<u>120,278</u>	<u>65,725</u>	<u>(27,255)</u>	<u>(66,227)</u>	
Total Additions	<u>3,614,313</u>	<u>36,663,722</u>	<u>35,311,743</u>	<u>1,105,627</u>	<u>4,525,554</u>	<u>1,286,826</u>	<u>1,221,573</u>
REDUCTIONS							
Budgeted Expenditures & Transfers-Out	4,162,552	26,270,858	20,637,893		4,363,984		
Nonbudgeted Expenditures & Transfers-Out	(973)	14,184,275	15,866,222	944,581	(81)	1,112,127	
Prior Year Expenditures & Transfers-Out Adjustments	<u>(12,906)</u>	<u>(13,555)</u>	<u>(230,337)</u>	<u>35,632</u>	<u>17,218</u>	<u>55,755</u>	
Total Reductions	<u>4,148,673</u>	<u>40,441,578</u>	<u>36,273,778</u>	<u>980,213</u>	<u>4,381,121</u>	<u>1,167,882</u>	
FUND BALANCE: June 30, 2006	\$ <u><u>(1,370,552)</u></u>	\$ <u><u>157,096,061</u></u>	\$ <u><u>(5,701,458)</u></u>	\$ <u><u>344,601</u></u>	\$ <u><u>943,374</u></u>	\$ <u><u>4,272,225</u></u>	\$ <u><u>1,221,573</u></u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.  
Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF ENVIRONMENTAL QUALITY  
SCHEDULE OF CHANGES IN FUND BALANCES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	<u>General Fund</u>	<u>State Special Revenue Fund</u>	<u>Federal Special Revenue Fund</u>	<u>Debt Service Fund</u>	<u>Internal Service Fund</u>	<u>Agency Fund</u>	<u>Private Purpose Trust Fund</u>
FUND BALANCE: July 1, 2004	\$ <u>(773,209)</u>	\$ <u>153,899,535</u>	\$ <u>(5,705,659)</u>	\$ <u>192,198</u>	\$ <u>872,308</u>	\$ <u>0</u>	\$ <u>3,956,326</u>
ADDITIONS							
Budgeted Revenues & Transfers-In	300	19,493,824	22,880,112		3,773,189		
Nonbudgeted Revenues & Transfers-In	53,355	9,548,866	5,076,502	1,057,907			869,290
Prior Year Revenues & Transfers-In Adjustments		917,776	412,898	(12,150)	(2,539)		
Direct Entries to Fund Balance	2,768,510	9,469,262	(59,465)		987		
Additions to Property Held in Trust						2,000	
Total Additions	<u>2,822,165</u>	<u>39,429,728</u>	<u>28,310,047</u>	<u>1,045,757</u>	<u>3,771,637</u>	<u>2,000</u>	<u>869,290</u>
REDUCTIONS							
Budgeted Expenditures & Transfers-Out	3,010,475	21,353,109	22,522,964		3,834,355		
Nonbudgeted Expenditures & Transfers-Out	3,917	11,352,883	5,137,724	1,018,568	(38,668)		672,335
Prior Year Expenditures & Transfers-Out Adjustments	(129,244)	(250,646)	(316,877)	200	49,317		
Reductions in Property Held in Trust						2,000	
Total Reductions	<u>2,885,148</u>	<u>32,455,346</u>	<u>27,343,811</u>	<u>1,018,768</u>	<u>3,845,004</u>	<u>2,000</u>	<u>672,335</u>
FUND BALANCE: June 30, 2005	\$ <u>(836,192)</u>	\$ <u>160,873,917</u>	\$ <u>(4,739,423)</u>	\$ <u>219,187</u>	\$ <u>798,941</u>	\$ <u>0</u>	\$ <u>4,153,281</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.  
Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF ENVIRONMENTAL QUALITY  
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Internal Service Fund	Private Purpose Trust Fund	Permanent Fund	Total
<b>TOTAL REVENUES &amp; TRANSFERS-IN BY CLASS</b>								
Licenses and Permits	\$ 25,265	\$ 9,139,199						\$ 9,164,464
Taxes	809	1,994	\$ 1,941		\$ 278			5,022
Charges for Services		4,229,009		\$ 758,709	2,624,142			7,611,860
Investment Earnings		1,821,341	3,729	99,449		\$ 34,204	\$ 21,573	1,980,296
Fines, Forfeits and Settlements	365,882	2,331,373	2,000					2,699,255
Sale of Documents, Merchandise and Property		1,350	800					2,150
Contributions and Premiums					119,534			119,534
Miscellaneous	3,511	205,749	1,488		2,747			213,495
Grants, Contracts, Donations and Abandonments		1,058,837	56,146			1,318,849		2,433,832
Other Financing Sources		6,179,463	109,343	181,744	14,018		1,200,000	7,684,568
Federal		(282)	35,016,018					35,015,736
Federal Indirect Cost Recoveries					1,792,090			1,792,090
Total Revenues & Transfers-In	395,467	24,968,033	35,191,465	1,039,902	4,552,809	1,353,053	1,221,573	68,722,302
Less: Nonbudgeted Revenues & Transfers-In	370,202	4,152,637	15,744,529	1,039,902	2,940	1,256,298	1,221,573	23,788,081
Prior Year Revenues & Transfers-In Adjustments		694,723	39,637		15,669	96,755		846,784
Actual Budgeted Revenues & Transfers-In	25,265	20,120,673	19,407,299	0	4,534,200	0	0	44,087,437
Estimated Revenues & Transfers-In	31,676	21,214,526	19,622,847		4,534,235			45,403,284
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (6,411)	\$ (1,093,853)	\$ (215,548)	\$ 0	\$ (35)	\$ 0	\$ 0	\$ (1,315,847)
<b>BUDGETED REVENUES &amp; TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS</b>								
Licenses and Permits	\$ (5,230)	\$ 13,979						\$ 8,749
Taxes	(621)							(621)
Charges for Services	(560)	(4,003)			\$ (23)			(4,586)
Investment Earnings		(1,043,740)	\$ 178					(1,043,562)
Fines, Forfeits and Settlements		(686)						(686)
Sale of Documents, Merchandise and Property		(70)						(70)
Contributions and Premiums					(1)			(1)
Miscellaneous		(2,892)						(2,892)
Grants, Contracts, Donations and Abandonments		(28,876)	(39,130)					(68,006)
Other Financing Sources		(27,565)						(27,565)
Federal			(176,596)					(176,596)
Federal Indirect Cost Recoveries					(11)			(11)
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (6,411)	\$ (1,093,853)	\$ (215,548)	\$ 0	\$ (35)	\$ 0	\$ 0	\$ (1,315,847)

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.  
Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF ENVIRONMENTAL QUALITY  
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Internal Service Fund	Private Purpose Trust Fund	Total
<b>TOTAL REVENUES &amp; TRANSFERS-IN BY CLASS</b>							
Licenses and Permits	\$ 300	\$ 8,186,928					\$ 8,187,228
Taxes	706	1,697	\$ 2,065				4,468
Charges for Services		647,161		\$ 859,145	\$ 2,105,376		3,611,682
Investment Earnings		9,954,521	1,929	6,774		\$ 17,763	9,980,987
Fines, Forfeits and Settlements	46,516	2,938,838					2,985,354
Sale of Documents, Merchandise and Property		1,570	1,850				3,420
Miscellaneous	6,133	214,681	237,046				457,860
Grants, Contracts, Donations and Abandonments		322,554	13,097			851,527	1,187,178
Other Financing Sources		7,692,234		179,838			7,872,072
Federal		282	28,113,525				28,113,807
Federal Indirect Cost Recoveries					1,665,274		1,665,274
Total Revenues & Transfers-In	<u>53,655</u>	<u>29,960,466</u>	<u>28,369,512</u>	<u>1,045,757</u>	<u>3,770,650</u>	<u>869,290</u>	<u>64,069,330</u>
Less: Nonbudgeted Revenues & Transfers-In	53,355	9,548,866	5,076,502	1,057,907		869,290	16,605,920
Prior Year Revenues & Transfers-In Adjustments		917,776	412,898	(12,150)	(2,539)		1,315,985
Actual Budgeted Revenues & Transfers-In	<u>300</u>	<u>19,493,824</u>	<u>22,880,112</u>	<u>0</u>	<u>3,773,189</u>	<u>0</u>	<u>46,147,425</u>
Estimated Revenues & Transfers-In	<u>86,500</u>	<u>20,568,661</u>	<u>24,979,621</u>	<u>0</u>	<u>8,927,312</u>	<u>0</u>	<u>54,562,094</u>
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ (86,200)</u>	<u>\$ (1,074,837)</u>	<u>\$ (2,099,509)</u>	<u>\$ 0</u>	<u>\$ (5,154,123)</u>	<u>\$ 0</u>	<u>\$ (8,414,669)</u>
<b>BUDGETED REVENUES &amp; TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS</b>							
Licenses and Permits	\$ (200)	\$ 176,357					\$ 176,157
Charges for Services	(86,000)	(354,693)			\$ (3,251,252)		(3,691,945)
Investment Earnings		1,369,258	\$ 1,929				1,371,187
Fines, Forfeits and Settlements		(1,034,210)					(1,034,210)
Sale of Documents, Merchandise and Property		70					70
Miscellaneous		(831)					(831)
Grants, Contracts, Donations and Abandonments		(1,024,663)	(11,902)				(1,036,565)
Other Financing Sources		(206,125)					(206,125)
Federal			(2,089,536)				(2,089,536)
Federal Indirect Cost Recoveries					(1,902,871)		(1,902,871)
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ (86,200)</u>	<u>\$ (1,074,837)</u>	<u>\$ (2,099,509)</u>	<u>\$ 0</u>	<u>\$ (5,154,123)</u>	<u>\$ 0</u>	<u>\$ (8,414,669)</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.  
Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF ENVIRONMENTAL QUALITY  
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	Central Management	Enforcement Division	Permitting and Compliance Division	Petroleum Tank Release Compensation Board	Planning, Prevent and Assistance Division	Remediation Division	Total
Personal Services							
Salaries	\$ 2,797,560	\$ 541,349	\$ 6,847,988	\$ 221,867	\$ 3,437,009	\$ 2,411,290	\$ 16,257,063
Employee Benefits	828,608	165,034	2,099,842	71,187	1,018,740	733,499	4,916,910
Personal Services-Other	42,576						42,576
Total	<u>3,668,744</u>	<u>706,383</u>	<u>8,947,830</u>	<u>293,054</u>	<u>4,455,749</u>	<u>3,144,789</u>	<u>21,216,549</u>
Operating Expenses							
Other Services	1,744,969	25,281	4,129,860	391,282	4,295,445	19,872,568	30,459,405
Supplies & Materials	216,701	28,536	404,297	6,785	282,282	156,396	1,094,997
Communications	47,295	17,335	207,734	3,546	83,136	61,173	420,219
Travel	49,712	5,745	248,936	5,705	178,584	94,299	582,981
Rent	155,640	38,655	472,082	12,379	247,487	175,887	1,102,130
Utilities			3,378		3,937	1,866	9,181
Repair & Maintenance	70,272	693	37,460	201	29,122	6,266	144,014
Other Expenses	471,464	311,498	2,302,312	70,486	1,187,431	843,559	5,186,750
Goods Purchased For Resale					52		52
Total	<u>2,756,053</u>	<u>427,743</u>	<u>7,806,059</u>	<u>490,384</u>	<u>6,307,476</u>	<u>21,212,014</u>	<u>38,999,729</u>
Equipment & Intangible Assets							
Equipment	70,434		18,791		97,489	60,011	246,725
Intangible Assets			75,925				75,925
Total	<u>70,434</u>		<u>94,716</u>		<u>97,489</u>	<u>60,011</u>	<u>322,650</u>
Grants							
From State Sources			1,721,867				1,721,867
Total			<u>1,721,867</u>				<u>1,721,867</u>
Benefits & Claims							
From State Sources				5,361,546			5,361,546
From Federal Sources				(67,235)			(67,235)
Total				<u>5,294,311</u>			<u>5,294,311</u>
From Other Sources							
Distrib from Priv Purp Trusts			1,167,882				1,167,882
Total			<u>1,167,882</u>				<u>1,167,882</u>
Transfers							
Accounting Entity Transfers		11,018	184,744		15,598,631	1,848,811	17,643,204
Total		<u>11,018</u>	<u>184,744</u>		<u>15,598,631</u>	<u>1,848,811</u>	<u>17,643,204</u>
Debt Service							
Bonds			180,743		729,141	76,245	986,129
Loans				40,924			40,924
Total			<u>180,743</u>	<u>40,924</u>	<u>729,141</u>	<u>76,245</u>	<u>1,027,053</u>
Total Expenditures & Transfers-Out	\$ <u>6,495,231</u>	\$ <u>1,145,144</u>	\$ <u>20,103,841</u>	\$ <u>6,118,673</u>	\$ <u>27,188,486</u>	\$ <u>26,341,870</u>	\$ <u>87,393,245</u>
EXPENDITURES & TRANSFERS-OUT BY FUND							
General Fund	\$ 316,299	\$ 404,013	\$ 899,466		\$ 2,528,895		\$ 4,148,673
State Special Revenue Fund	1,171,816	381,100	13,188,237	\$ 6,118,673	1,017,078	\$ 18,564,674	40,441,578
Federal Special Revenue Fund	626,573	360,031	4,665,934		22,902,467	7,718,773	36,273,778
Debt Service Fund			181,744		740,046	58,423	980,213
Internal Service Fund	4,380,543		578				4,381,121
Private Purpose Trust Fund			1,167,882				1,167,882
Total Expenditures & Transfers-Out	<u>6,495,231</u>	<u>1,145,144</u>	<u>20,103,841</u>	<u>6,118,673</u>	<u>27,188,486</u>	<u>26,341,870</u>	<u>87,393,245</u>
Less: Nonbudgeted Expenditures & Transfers-Out	(1,052)	129,211	1,588,547	(364)	16,289,747	14,100,061	32,106,150
Prior Year Expenditures & Transfers-Out Adjustments	<u>36,307</u>	<u>265</u>	<u>(32,733)</u>	<u>(161,784)</u>	<u>(217,417)</u>	<u>227,168</u>	<u>(148,194)</u>
Actual Budgeted Expenditures & Transfers-Out	6,459,976	1,015,668	18,548,027	6,280,821	11,116,156	12,014,641	55,435,289
Budget Authority	<u>14,196,140</u>	<u>1,028,700</u>	<u>33,411,575</u>	<u>6,468,925</u>	<u>15,249,284</u>	<u>21,915,850</u>	<u>92,270,474</u>
Unspent Budget Authority	\$ <u>7,736,164</u>	\$ <u>13,032</u>	\$ <u>14,863,548</u>	\$ <u>188,104</u>	\$ <u>4,133,128</u>	\$ <u>9,901,209</u>	\$ <u>36,835,185</u>
UNSPENT BUDGET AUTHORITY BY FUND							
General Fund	\$ 26,429	\$ 3,772	\$ 68,195		\$ 105,540		\$ 203,936
State Special Revenue Fund	6,058,881	4,669	9,954,352	\$ 188,104	510,151	\$ 4,813,869	21,530,026
Federal Special Revenue Fund	1,374,203	4,591	4,841,001		3,517,437	5,087,340	14,824,572
Internal Service Fund	<u>276,651</u>						<u>276,651</u>
Unspent Budget Authority	\$ <u>7,736,164</u>	\$ <u>13,032</u>	\$ <u>14,863,548</u>	\$ <u>188,104</u>	\$ <u>4,133,128</u>	\$ <u>9,901,209</u>	\$ <u>36,835,185</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF ENVIRONMENTAL QUALITY  
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	Central Management	Enforcement Division	Permitting and Compliance Division	Petroleum Tank Release Compensation Board	Planning Prevention and Assistance Division	Remediation Division	Total
Personal Services							
Salaries	\$ 2,702,943	\$ 542,991	\$ 6,403,659	\$ 212,429	\$ 2,959,805	\$ 2,273,649	\$ 15,095,476
Employee Benefits	794,647	164,120	1,953,878	67,803	885,718	690,189	4,556,355
Personal Services-Other	(54,976)						(54,976)
Total	<u>3,442,614</u>	<u>707,111</u>	<u>8,357,537</u>	<u>280,232</u>	<u>3,845,523</u>	<u>2,963,838</u>	<u>19,596,855</u>
Operating Expenses							
Other Services	1,234,165	52,165	7,377,224	177,421	3,505,169	14,646,169	26,992,313
Supplies & Materials	168,464	14,027	301,858	8,023	210,655	128,466	831,493
Communications	47,718	13,531	197,166	3,952	103,371	70,183	435,921
Travel	46,470	8,775	238,127	5,345	190,666	75,108	564,491
Rent	136,172	41,471	472,833	12,631	233,361	176,870	1,073,338
Utilities		11	2,180		6,452	587	9,230
Repair & Maintenance	22,955	912	31,752	281	60,083	63,653	179,636
Other Expenses	311,316	162,113	2,043,142	63,256	992,528	723,674	4,296,029
Total	<u>1,967,260</u>	<u>293,005</u>	<u>10,664,282</u>	<u>270,909</u>	<u>5,302,285</u>	<u>15,884,710</u>	<u>34,382,451</u>
Equipment & Intangible Assets							
Equipment					31,471	84,600	116,071
Total					<u>31,471</u>	<u>84,600</u>	<u>116,071</u>
Grants							
From State Sources			1,782,003				1,782,003
Total			<u>1,782,003</u>				<u>1,782,003</u>
Benefits & Claims							
From State Sources				4,844,676			4,844,676
From Federal Sources				67,235			67,235
Total				<u>4,911,911</u>			<u>4,911,911</u>
From Other Sources							
Distrib from Priv Purp Trusts			672,335				672,335
Total			<u>672,335</u>				<u>672,335</u>
Transfers							
Accounting Entity Transfers			179,838		5,087,634	400,000	5,667,472
Total			<u>179,838</u>		<u>5,087,634</u>	<u>400,000</u>	<u>5,667,472</u>
Debt Service							
Bonds			178,838		856,797	18,128	1,053,763
Loans				37,551			37,551
Total			<u>178,838</u>	<u>37,551</u>	<u>856,797</u>	<u>18,128</u>	<u>1,091,314</u>
Total Expenditures & Transfers-Out	<u>\$ 5,409,874</u>	<u>\$ 1,000,116</u>	<u>\$ 21,834,833</u>	<u>\$ 5,500,603</u>	<u>\$ 15,123,710</u>	<u>\$ 19,351,276</u>	<u>\$ 68,220,412</u>
EXPENDITURES & TRANSFERS-OUT BY FUND							
General Fund	\$ 568,517	\$ 83,903	\$ 789,785		\$ 1,442,943		\$ 2,885,148
State Special Revenue Fund	319,140	152,806	12,672,746	\$ 5,500,603	831,615	\$ 12,978,436	32,455,346
Federal Special Revenue Fund	677,213	763,407	7,520,129		12,007,829	6,375,233	27,343,811
Debt Service Fund			179,838		841,323	(2,393)	1,018,768
Internal Service Fund	3,845,004						3,845,004
Private Purpose Trust Fund			672,335				672,335
Total Expenditures & Transfers-Out	<u>5,409,874</u>	<u>1,000,116</u>	<u>21,834,833</u>	<u>5,500,603</u>	<u>15,123,710</u>	<u>19,351,276</u>	<u>68,220,412</u>
Less: Nonbudgeted Expenditures & Transfers-Out	(38,668)	1,112	1,269,402	2,340	6,034,195	10,878,378	18,146,759
Prior Year Expenditures & Transfers-Out Adjustments	(71,416)	(727)	(14,665)	(149,765)	(478,777)	68,102	(647,248)
Actual Budgeted Expenditures & Transfers-Out	5,519,958	999,731	20,580,096	5,648,028	9,568,292	8,404,796	50,720,901
Budget Authority	6,583,158	1,078,883	50,772,029	6,695,403	13,112,881	14,964,837	93,207,191
Unspent Budget Authority	<u>\$ 1,063,200</u>	<u>\$ 79,152</u>	<u>\$ 30,191,933</u>	<u>\$ 1,047,375</u>	<u>\$ 3,544,589</u>	<u>\$ 6,560,041</u>	<u>\$ 42,486,290</u>
UNSPENT BUDGET AUTHORITY BY FUND							
General Fund	\$ 99	\$ 2,010	\$ 50,833		\$ 102,237		\$ 155,179
State Special Revenue Fund	482,151	59,814	29,023,861	\$ 1,047,375	616,756	\$ 2,323,131	33,553,088
Federal Special Revenue Fund	429,236	17,328	1,117,239		2,825,596	4,236,910	8,626,309
Internal Service Fund	151,714						151,714
Unspent Budget Authority	<u>\$ 1,063,200</u>	<u>\$ 79,152</u>	<u>\$ 30,191,933</u>	<u>\$ 1,047,375</u>	<u>\$ 3,544,589</u>	<u>\$ 6,560,041</u>	<u>\$ 42,486,290</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.  
Additional information is provided in the notes to the financial schedules beginning on page A-11.



# Montana Department of Environmental Quality

## Notes to the Financial Schedules

### For the Two Fiscal Years Ended June 30, 2006

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#### 1. Summary of Significant Accounting Policies

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##### **Basis of Accounting**

The department uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental fund category (General, Special Revenue, Debt Service, and Permanent). In applying the modified accrual basis, the department records:

Revenues when it receives cash or when receipts are realizable, measurable, earned and available to pay current period liabilities.

Expenditures for valid obligations when the department incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires the department to record the cost of employees' annual leave and sick leave when used or paid.

The department uses accrual basis accounting for its Proprietary (Internal Service) and Fiduciary (Private Purpose Trust, and Agency) fund categories. Under the accrual basis, as defined by state accounting policy, the department records revenues in the accounting period earned when realizable, measurable, and earned, and records expenses in the period incurred when measurable.

Expenditures and expenses may include: entire budgeted service contracts even though the department receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

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##### **Basis of Presentation**

The financial schedule format is in accordance with the policy of the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the state's accounting system without adjustment. The department uses the following funds:

## Notes to the Financial Schedules

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### **Governmental Fund Category**

**General Fund** – to account for all financial resources except those required to be accounted for in another fund.

**State Special Revenue Fund** – to account for proceeds of specific revenue sources (other than private purpose trusts) that are legally restricted to expenditures for specific purposes. Department State Special Revenue Funds include Petroleum Tank Release Cleanup, Air Quality Operating Fees, Montana Pollution Discharge Elimination System (MPDES) Permit Program, Montana Pole Remedial Action, Subdivision Plat Review, Reclamation and Development, Orphan Share Fund, Junk Vehicle Disposal, trust funds initially funded with Office of Surface Mining grants, and various reclamation bond forfeiture and settlement accounts.

**Federal Special Revenue Fund** – to account for proceeds of federal revenue sources that are legally restricted to expenditures for specific purposes. Department Federal Special Revenue Funds include federal assistance programs such as the Water Pollution Control and Drinking Water State Revolving Funds, Performance Partnership Grants, Abandoned Mine Lands Reclamation Grant, as well as other federal grants and agreements.

**Debt Service Fund** – to account for accumulated resources for the payment of general long-term debt principal and interest. The department uses this fund for the state building and energy programs.

**Permanent Fund** – to account for financial resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the department's programs. The legislature created this new trust fund in fiscal year 2005-06 to cover the long-term costs of water treatment in the area of the Zortman-Landusky mines. The new trust is financed from an annual transfer of \$1.2 million from the orphan share fund until 2018 or until the balance reaches \$19.3 million.

### **Proprietary Fund Category**

**Internal Service Fund** – to account for the financing of goods or services provided by one department or agency to other departments

## Notes to the Financial Schedules

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or agencies of state government or to other governmental entities on a cost-reimbursement basis. The department's Internal Service Fund includes indirect charges assessed against all units of the department by the Central Management Program for providing department-wide support functions and services.

### **Fiduciary Fund Category**

**Private-Purpose Trust Fund** – to account for activity of all trust arrangements under which principal and income benefit individuals, private organizations, or other governments. The department's Private Purpose Trust Funds include the property held in trust related to permitting activities.

**Agency Fund** – to account for resources held by the state in a custodial capacity. The department's Agency Fund activity was moved to the Private Purpose Trust Fund in fiscal year 2005-06.

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### **2. General Fund Balance**

The negative fund balance in the General Fund does not indicate overspent appropriation authority. The department has authority to pay obligations from the statewide General Fund within its appropriation limits. The department expends cash or other assets from the statewide fund when it pays General Fund obligations. The department's outstanding liabilities exceed the assets the agency has placed in the fund, resulting in negative ending General Fund balances at June 30, 2005, and June 30, 2006.

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### **3. Direct Entries to Fund Balance**

Direct entries to fund balances in the General and Special Revenue funds include entries generated by SABHRS to reflect the flow of resources within individual funds shared by separate agencies.

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### **4. Accounting Entity Transfers**

The accounting entity transfers of \$5 million and \$15.6 million in fiscal years 2004-05 and 2005-06, respectively, are related to the Federal Drinking and Clean Water State Revolving Fund programs.

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### **5. Fund Balance – State Special Revenue Fund**

The fund balance in the State Special Revenue Fund consists of investments related to the 1998 settlement with Atlantic Richfield Company to restore or replace damaged natural resources in the Butte-Silverbow area. The fund balances at June 30, 2005,

## Notes to the Financial Schedules

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and June 30, 2006, includes approximately \$120 million of the Montana Pole and Streamside Tailings settlement funds, which is approximately 73 percent of the total fund balance in the State Special Revenue Fund.

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### 6. Revenue Estimates

The Internal Service Fund revenue estimate of \$8,927,313 recorded on the Schedule of Revenues & Transfers-In for the fiscal year ended June 30, 2005, was the total for the biennium instead of just the fiscal year 2004-05.

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### 7. Unspent Budget Authority

The majority of State Special Revenue Fund unspent budget authority in the Permitting and Compliance Division relates to the department's reclamation of mine sites. The department had \$30.4 million of budget authority to spend bond forfeiture proceeds for reclamation of mine sites in fiscal year 2004-05. The legislature reduced the reclamation authority by \$21.6 million in fiscal year 2005-06 to assist with meeting the state expenditure limitation.

## **Department Response**

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Brian Schweitzer, Governor

P.O. Box 200901 • Helena, MT 59620-0901 • (406) 444-2544 • [www.deq.mt.gov](http://www.deq.mt.gov)

October 14, 2006

Mr. Scott A. Seacat  
Legislative Auditor  
Office of the Legislative Auditor  
State Capitol, Room 160  
Helena, Montana 59620-1705

Dear Mr. Seacat:

By this letter, I am transmitting the Department of Environmental Quality's formal response to your Financial and Compliance Audit for the two years ending June 30, 2006.

I would like to personally thank your office and the audit staff assigned to this endeavor for their dedication, professionalism, and cooperative approach throughout the course of this audit. Their findings and subsequent recommendations have provided a valuable service and insight to department management relative to our fiscal-compliance responsibilities.

I will be available for the November meeting of the Legislative Audit Committee, as will appropriate department staff.

Sincerely,

A handwritten signature in blue ink, appearing to read "Richard Oppen", with a long horizontal flourish extending to the right.

Richard Oppen  
Director

Page B-3

## **Recommendation #1**

We recommend:

- A. The department record the workers' compensation discounts in accordance with state accounting policy.
- B. The department move \$130,560 of workers' compensation discount in the Internal Service Fund to the General Fund, State and Federal Special Revenue Funds.

*The department **concurs** with this recommendation.*

*The department:*

- A. *Will record future workers' compensation discounts in accordance with state accounting policy.*
- B. *The department has moved the \$130,560 of workers' compensation discounts in the Internal Service Fund to the General Fund, State and Federal Special Revenue Funds.*

## **Recommendation #2**

We recommend the department's State Revolving Fund Loan programs implement procedures to ensure it complies with federal requirements prohibiting contracting with suspended or debarred entities.

*The department **concurs** with this recommendation.*

*The department's State Revolving Fund Loan program will include procedures in the contracting process to ensure it does not contract with suspended or debarred entities.*